

Liquidity, Valuation and Events: July – September 2019

Global Indices

Index Name	Country	28 Sep 2018	29 Jun 2019	30 Sep 2019	3 Month Return (%)	1 Year Return (%)
Developed Economies						
CAC 40	France	5493	5539	5678	3%	3%
Swiss Market	Switzerland	9088	98989	10078	2%	11%
Nikkei 225	Japan	21420	21276	21756	2%	-10%
Dow Jones	US	26458	26600	26917	1%	2%
DAX	Germany	12247	12399	12428	0%	1%
Nasdaq	US	8046	8006	7999	0%	-1%
NYSE	US	13083	13050	13005	0%	-1%
FTSE 100	UK	7510	7426	7408	0%	-1%
Straits Times	Singapore	3257	3321	3120	-6%	-4%
BRICs						
Bovespa	Brazil	79342	100967	104745	4%	32%
RTS Index	Russia	1192	1381	1334	0%	-3%
S&P BSE SENSEX	India	36227	39395	38667	-2%	7%
Shanghai Composite	China	2821	2979	2905	-2%	3%
NIFTY 50	India	10930	11789	11474	-3%	5%
Hang Seng	Hong Kong	27789	28543	26092	-9%	-6%
Other Emerging Economies						
Taiwan Weighted	Taiwan	11006	10731	10830	1%	-2%
Jakarta Composite	Indonesia	5977	6359	6169	-3%	3%
Seoul Composite	South Korea	2343	2131	2063	-3%	-12%
KLSE Composite	Malaysia	1793	1672	1584	-5%	-12%
MerVal	Argentina	33462	41796	29067	-30%	-13%

Domestic Indices

Index Name	28 Sep 2018	29 Jun 2019	30 Sep 2019	3 Month Return(%)	1 YearReturn (%)
NIFTY Consumption	4793	4756	4956	4%	3%
NIFTY FMCG	29758	29546	31135	0%	40%
NIFTY IT	15838	15936	15540	-2%	-2%
NIFTY 50	10930	11789	11474	-3%	5%
NIFTY Energy	15697	16047	15502	-3%	-1%
Nifty Financial Services	10577	13556	13017	-4%	23%
NIFTY Infra	2967	3369	3208	-5%	8%
NIFTY Private Bank	14151	17197	16252	-5%	15%
NIFTY Auto	9590	7928	7493	-5%	-22%
NIFTY Bank	25120	31105	29103	-6%	16%
NIFTY Pharma	9972	8065	7848	-6%	-24%
NIFTY Realty	220	285	259	-9%	18%
Nifty Midcap 100	17154	17654	16026	-9%	-7%
Nifty Smallcap 100	6151	6200	5594	-10%	-9%
NIFTY Media	2448	2040	1800	-12%	-26%
NIFTY PSU Bank	2700	3206	2294	-28%	-15%

LIQUIDITY – FII FLOWS

Equity

(in Rs. Crore)	Jul – 19	Aug – 19	Sep– 19	TOTAL
Gross Purchase	99776	110425	117342	327543
Gross Sale	112195	128017	109794	350006
Net Investment	(12419)	(17592)	7548	(22463)

Debt

(in Rs. Crore)	Jul– 19	Aug – 19	Sep – 19	TOTAL
Gross Purchase	44218	41849	27661	113728
Gross Sale	34785	30177	28651	93613
Net Investment	9433	11672	(990)	20115

Total Net FII Flows in April- June'19

Rs. (2348) Crore

Source: ACE MF

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LIQUIDITY – DII FLOWS

(in Rs. Crore)	Jul– 19	Aug – 19	Sep– 19	TOTAL
Gross Purchase	264729	172079	84874	521682
Gross Sale	210910	138655	72383	421948
Net Investment	53819	33424	12491	99734

Source: ACE MF

MF ACTIVITY

Equity

(in Rs. Crore)	Jul- 19	Aug - 19	Sep - 19	TOTAL
Gross Purchase	69200	71507	61430	202137
Gross Sale	54116	54100	51469	158686
Net Investment	15084	17407	10961	43452

Debt

(in Rs. Crore)	Jul- 19	Aug - 19	Sep - 19	TOTAL
Gross Purchase	205007	172054	176126	553187
Gross Sale	152209	121738	144464	418410
Net Investment	52799	50316	31662	134777

Total Net MF Activity in Jan-Mar'19

Rs: : 178229 Crores

Source: ACE MF



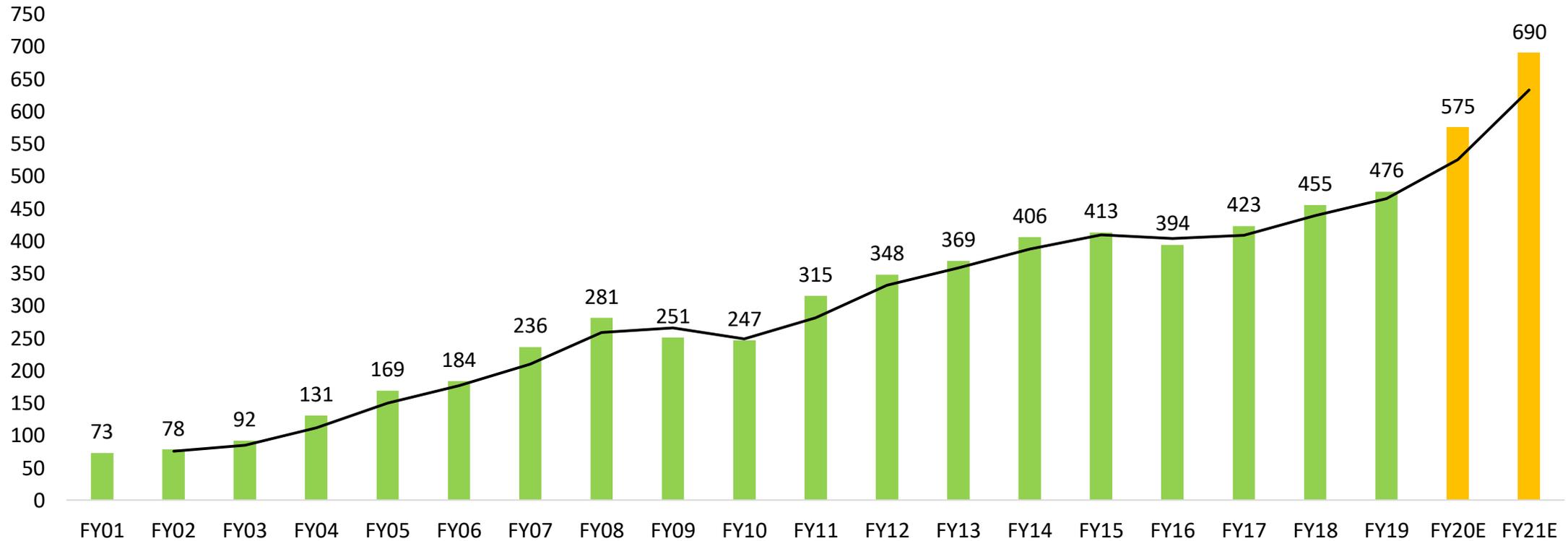
Source: SEBI

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Earnings Check

Nifty EPS Trend – Market expects >20% Earnings growth in FY20 and FY21



Source: Bloomberg,

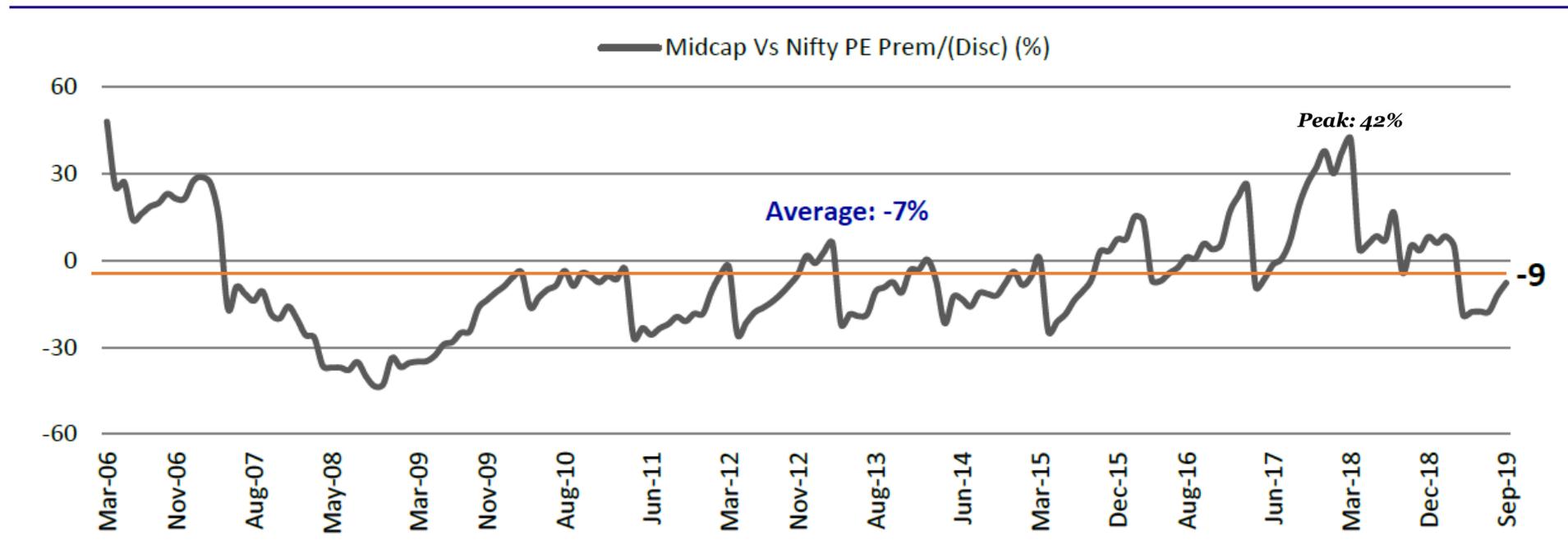


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Midcap's valuation discount to Nifty below long-term average and Jan'18 peak of 42%

Nifty Midcap Valuation (12 month forward PE) relative to Nifty



Major Events in July-Sept'19:

Domestic Events

Corporate tax cut

Highest rainfall in 25 years

Government raises disinvestment target

NBFC easing measures

Rollback on FPI tax surcharge

Scrapping of Article 370

RBI Rate cut

Global Events

Saudi Aramco attack

Geopolitical Tensions

Quantitative easing in Europe

Fed rate cut

Trump Impeachment

Hong Kong unrest

Major Events in Oct-Dec'2019:

Domestic Events

Q2FY20 Corporate Results

Monthly economic and industries data – IIP, Inflation, Auto, MFs, etc.

Festive season demand pickup

Monsoon impact on Kharif and Rabi crop

RBI Monetary Policy

State Elections

Global Events

Tariff related issues

Fed Meet and rate cuts

Strengthening Dollar

Crude Movement

Brexit

Indo-Pak Tension

Outlook for Asset Classes

Asset Classes	Performance in Q1FY20	Start to End Value In Q2FY20	Outlook for Q3FY20	Remarks
Debt	10-Year Gilt: down 18 bps 3-M T Bill: down 66 bps 6-M T Bill: down 65 bps 3-M CP: NA 1-Yr CP: NA 10-Yr AAA Corp: down 38 bps Call Rate: down 17 bps	6.88 – 6.7 5.98 – 5.32 6.1 – 5.45 7.1 8.0 8.13 – 7.75 5.41 – 5.58	10 year Gilt yields likely to soften. (The initial fall in Gsec yields was triggered by proposal to issue Sovereign Bonds overseas. Later uncertainty made yields climb up again. Abundant liquidity by RBI kept the short term rates down.)	Spike in crude and food grain prices may drive up inflation and thus negate the view of a downward bias in long term yields
Equity	Sensex: Down 1.8% Nifty: Down 2.7%	39,395– 38,667 11,789– 11,474	Upward Bias Midcaps to outperform on rally, else underperform in the event of a market decline	Global risks more important in the near term. Weak domestic monthly nos may lead to earnings downgrade and bring markets down.

Thank you



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ANNEXURES

Domestic Events

Annexure-I

- On 20th September, Finance Minister took a bold step by **slashing corporate tax rate to 22%** without exemptions or incentives from current 30%+ tax rate, offering 1.45 lakh crore boost to the economy which grew by its slowest pace in six years in April-June 2019-20 at 5%. She has also cut the MAT rate to 15% from 18.5%
- India received **10% above average monsoon rains** in 2019, the highest in 25 years as seasonal rainfall continues longer than expected as per IMD
- Finance Minister has rolled back her decision it took in the budget to increase surcharge on FPI's (following this decision in the budget effective income tax rate for individuals with taxable income of 2-5 crore went up to 39% from 35.88% and for those above 5 cr to 42.7%). Sitharaman also withdrew angel tax provision for startups registered with DPIIT to mitigate their & investor's genuine difficulties
- Union Home Minister Amit Shah has announced **the scrapping of Article 370** of the Constitution, which provides a special status to the state of Jammu and Kashmir. The state will be split into two Union Territories: Jammu and Kashmir with an assembly and Ladakh without one. With this reform, India now has 28 states and 9 union territories



Domestic Events

- RBI **cuts repo rate by 35bps** in its third bi-monthly policy review of the financial year. It was a fourth rate cut by the central bank in a row
- Measures to Support NBFC –
 - FM announced additional liquidity support. The NHB, or National Housing Bank, can now extend up to Rs 30,000 crore credit lines to NBFCs instead of Rs 20,000 crore earlier. She also said that partial credit guarantee scheme for purchase of pooled assets of NBFC/HFCs, up to Rs 1 lakh crore, will be monitored at the highest level in each bank.
 - RBI increases the ceiling for a bank's exposure to a single NBFC to 20% of its tier I capital from 15% earlier
 - Bank lending to registered NBFCs for on-lending to agriculture up to 10 lakh; micro and small enterprises up to 20 lakh; and housing up to 20 lakh per borrower to be classified as priority sector lending
- Government plans to **raise disinvestment target by 52,000 cr** to 1.57 lakh crore from divestment of 24 PSUs, for partly bridging the fiscal gap arising out of 1.45 lakh crore stimulus offered to the corporates.

Annexure-I

Global Events

Annexure-I

- **Saudi oil facilities** attacked via drone on 14th Sept, disrupting nearly 50% of their oil supply. Houdini rebels claimed responsibility but Saudi and its allies blamed **Iran**. This created short-term panic in global oil market leading to oil jumping more than 10% in a single day.
- While trade concerns between global superpowers are not showing any signs of easing, its ripple effect is intensifying in countries like Japan, South Korea & European Union.
- **Geopolitical Concerns:**
 - Aramco attack has again sparked conflict in **Middle East**
 - **North Korea** fired another ballistic missile towards Japan
 - Anti-government protests which have rocked **Hong Kong** for months is showing no sign of dying down.
 - Talks between US and Taliban to withdraw troops from **Afghanistan** ended abruptly after a car bomb claimed 12 lives in Kabul.

Global Events

- **Quantitative easing** is back: The **ECB** cuts its deposit rate to a record low of **-0.5% from -0.4%** and will restart bond purchases of **20 billion euros a month** from November to prop up euro zone growth and halt a worrisome drop in inflation expectations.
- Federal reserve also lowered their main interest rate for a **second time** this year to **1.75-2%** in September.
- Democrats launched a bid to **Impeach Trump** from House of Representatives after democrats accused him of pressuring Ukrainian PM to launch corruption enquiry against Former US Vice president and political rival Joe Biden.

Annexure-I

Q1FY20 Earnings Trend

- **Private Banks** saw strong earnings growth on the back of strong operating performance and improvement in asset quality
- **PSU Banks** cumulatively turned profitable, primarily on the back of improvement in asset quality and losses the previous year; management commentary and results pointed to bottoming out of NPAs.
- **NBFCs** saw slowdown in loan growth and pressure on NIMs. However, some of the better NBFCs continued to show growth momentum
- **Autos:** Weakness in Auto Sales was evident in earnings; 2W industry did relatively well.
- **IT :** Earnings for IT industry was led by Infosys and TCS; Companies saw margin pressures and tapering of growth (ex- Infosys)
- **Cement:** Companies saw strong earnings growth due to higher realisation. Due to elections volume growth was tepid
- **Consumer Durables:** Demand consumer durables remained strong aided by strong summer.
- **FMCG :** Industry saw stable volume growth
- **Infra:** Execution and order intake were sluggish due to election

Source: Company data, Ace Equity.



Major Events in Oct-Dec'2019:

Annexure-II

- **Q2FY20** Numbers are expected to be muted due to weak consumer demand and erratic rainfalls
- **H2FY20** is expected to be good due to impact of measures taken by Finance Minister to revive the economy, revival in government infra spending, good rabi harvest & lower base of H2FY19
- **Festive Season** buying is expected to revive the consumer demand. This effect is evident from improved September Auto sales numbers & encouraging e-commerce sales numbers
- On 4th October, **RBI cuts its Repo rate by 25bps**, marking it's 5th consecutive rate cut in 2019. Current Repo Rate stands at 5.15%. RBI in its meeting also revised GDP estimate for FY20 to 6.1% from 6.9%
- **State Elections in Maharashtra & Haryana:** Anti incumbency may cause short term uncertainty
- Any resolution of **global tariff issues** may improve global economic growth
- Any **rate cut by Fed** may lead to further improvement in global liquidity scenario as well as taper further **dollar strengthening**
- Global economic uncertainties will keep **crude oil prices** benign, which will support emerging economies like India.
- **Brexit Update:** As the **31st Oct** deadline is nearing fears of hard Brexit is increasing, with Boris Johnson insisting on leaving EU on 31st Oct **with or without a deal**. UK government is hoping to reach a deal on 17th Oct at EU Summit.

Q2FY20 Earnings Expectations

- **Private Banks:** Loan growth to be driven by retail, margins to remain steady and credit costs to reduce sequentially for most of the banks. While we expect NPAs to decline, we also expect additions to bank's watch list/stress portfolio given the slew of corporate downgrades by rating agencies.
- **PSU Banks:** Loan growth to moderate, margins to remain steady and asset quality to improve despite high provisions.
- **NBFCs:** Expect loan growth to continue to decelerate and margins to decline for most of the NBFCs due to increasing competition from banks and higher cost of funding. See asset quality to remain under pressure for NBFCs/HFCs exposed to construction finance.
- **Autos:** Weakness is expected to continue as evident in monthly volume numbers.
- **IT:** Expect a steady quarter with some cross currency impact from stronger USD.
- **Cement:** While realizations are expected to remain buoyant, companies are expected to show weak volume growth due to heavy monsoons, slump in infra spending and weak Real estate market.
- **Consumer Durables:** Good set of numbers are expected.
- **FMCG :** Companies are expected to show stable volume growth.
- **Infra:** Heavy monsoons, order cancellations and weak order tendering will lead to a weaker Q2.

Annexure-II



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